Exhibit 27

S&P Global
Market Intelligence

SolarWinds Corporation NYSE:SWI

FQ2 2020 Earnings Call Transcripts

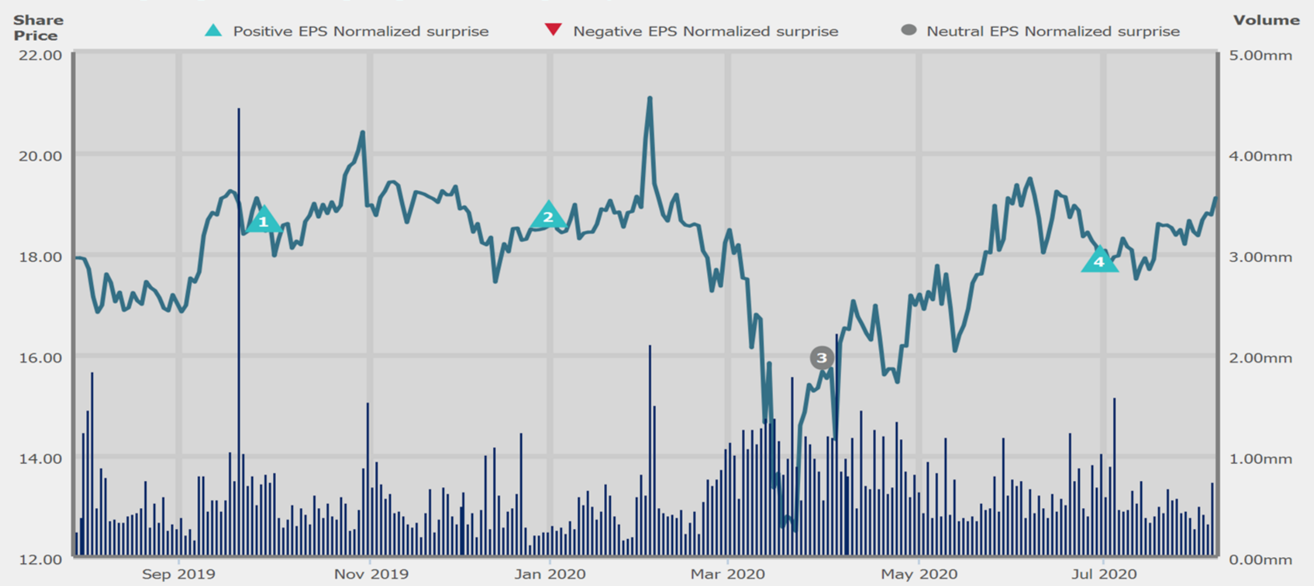
Thursday, August 06, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-		-FY 2020-		-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	0.20	0.25	▲25.00	0.22	0.24	0.87	0.94	0.97
Revenue (mm)	244.38	246.58	▲0.90	254.81	-	1010.31	-	1110.85

Currency: USD
Consensus as of Jul-28-2020 12:26 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.20	0.21	▲1 5.00 %
FQ4 2019	0.22	0.24	▲2 9.09 %
FQ1 2020	0.20	0.20	●3 0.00 %
FQ2 2020	0.20	0.25	▲4 25.00 %

Table of Contents

Call Participants	....	3
Presentation	....	4
Question and Answer	....	12

Call Participants

EXECUTIVES

Howard Ma
Senior Director of Investor Relations

J. Barton Kalsu
Executive VP, CFO & Treasurer

Kevin B. Thompson
President, CEO & Director

ANALYSTS

Brad Alan Zelnick
Crédit Suisse AG, Research Division

Erik Loren Suppiger
JMP Securities LLC, Research Division

Melissa Louise Dunn
Morgan Stanley, Research Division

Sterling Auty
JPMorgan Chase & Co, Research Division

Stewart Kirk Materne
Evercore ISI Institutional Equities, Research Division

Unknown Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the SolarWinds Second Quarter 2020 Earnings Call. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Howard Ma, Senior Director of Investor Relations. Thank you. Please go ahead, sir.

Howard Ma
Senior Director of Investor Relations

Thank you, operator. Good afternoon, everyone, and welcome to SolarWinds Second Quarter 2020 Earnings Call. With me today are Kevin Thompson, President and CEO; and Bart Kalsu, Executive Vice President and Chief Financial Officer. Following prepared remarks from Kevin and Bart, we'll have a brief question-and-answer session.

This call is being simultaneously webcast on our Investor Relations website at investors.solarwinds.com. On our Investor Relations website, you can also find our earnings press release, a press release regarding the potential spinoff of our MSP business and a summary slide deck, which is intended to supplement our prepared remarks during today's call and provides the reconciliation of differences between GAAP and non-GAAP financial measures. Please remember that certain statements made during this call are forward-looking statements, including, without limitation, those concerning our financial outlook, our market opportunities, the impact of the COVID-19 pandemic and related global economic environment on our business and a potential spin-off of our MSP business into a newly-created and separately-traded public company and our preliminary strategic, operational and financial considerations related to the potential spin-off. These statements are subject to a number of risks and uncertainties and could cause actual results to differ materially from those forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, the numerous risks related to the potential spin-off of our MSP business into a newly created and separately public company, including that the process of exploring the spin-off and potentially completing the spinoff could disrupt or adversely affect the consolidated or separate businesses results of operations and financial condition, that the spinoff may not achieve some or all of any anticipated benefits with respect to either business, and that the spinoff may not be completed in accordance with our expected plans or anticipated time lines or at all, and the possibility that the global COVID-19 pandemic may adversely affect our business, results of operations and financial condition. In addition, we are currently exploring the spinoff and has not been approved by our Board of Directors and our statements with respect thereto are preliminary in nature and subject to change as additional information becomes available and as we consider and plan further the future strategic, operational, financial and capital objectives, profiles and structures of the 2 businesses.

For more information, please refer to the risk factors discussed in today's related press releases and our SEC filings, including our most recently filed Form 10-K and Form 10-Q and a Form 10-Q for the second quarter of 2020 that we plan to file by August 10, 2020. These statements are also based on currently available information, and we undertake no duty to update this information except as required by law. Unless otherwise specified, we will refer to non-GAAP financial measures on the call and references to profitability and comparable measures refer to such measures on a non-GAAP basis. We will also provide our results and outlook for revenue growth rates on a constant currency basis to provide a framework for assessing our performance and how we expect our business to perform, excluding the effect of foreign currency fluctuations. Our use in calculation of these non-GAAP measures are further explained in today's earnings press release and a full reconciliation between each non-GAAP measure and its corresponding GAAP measure is provided in tables accompanying the press release.

And with that, I'll now turn over the call to Kevin.

Kevin B. Thompson
President, CEO & Director

Thanks, Howard. Hopefully, all of you are aware at this point that we issued 2 press releases this afternoon: one, sharing the results of our second quarter; and a second release, which discusses the fact that our Board of Directors has authorized management to explore a potential spin-off of our MSP business into a newly-created and separately traded public. We believe that this potential transaction could be transformational in our ability to drive a higher level of future growth of our MSP business and will allow us to optimize the operating performance of our core IT management business.

We will first discuss the results of the second quarter, and then we'll cover the spin-off opportunity we are exploring. Overall, I'm very pleased with our performance in the second quarter. Our global team took the volatile and uncertain environment and strived and stayed committed to our customers and partners' success while remaining focused on the outcomes we were striving to achieve in the quarter. This focused effort by our global team resulted in what we feel are very strong results for the second quarter, with total non-GAAP revenue reaching approximately $248 million on a constant currency basis or $247 million on a reported basis, comfortably within the higher end of the range of our last quarter and reflecting 7% year-over-year growth on a reported basis and 8% growth on a constant currency basis.

In addition, we delivered an outstanding quarter of profitability, generating over $119 million in adjusted EBITDA, meaningfully exceeding the high end of our outlook. The second quarter was challenging as businesses around the world grappled with the changing economic environment and the resulting impact on their business performance. As a result, IT and tech pros were left to deal with uncertainties around the amount of budget actually available and the approval process for committing that budget due to how rapidly the external environment and their individual internal approval processes were changing.

Given the volatility of the economic environment, the rhythm of the business was just as uneven as we expected it would be when we entered the quarter with variability by month in geographies across the quarter. Activity levels measured in terms of trials of our products, quality conversations with potential customers and deal closing pace have improved since March. However, we still are not at precrisis levels and do not expect to be at those levels before the end of the year.

May was the toughest month of the quarter for us and was impacted by the significant slowdown in demand that we experienced in mid-March. However, we then saw a sequential improvement in performance in June across most product lines and geographical regions, which was consistent with our expectations based on the demand improvement we began to see in April. Based on our interactions with thousands of technology pros during the second quarter, we saw an increase in budget pressure and heard from these technology pros that most of them expect additional budget pressures in the second half of the year. This has been corroborated by several recently-released CIO surveys, which have consistently indicated an expected slowdown in IT spending over the remainder of 2020.

Despite the pressure on IT budgets, our customer retention rates for the first 6 months of 2020 have remained remarkably stable due to the critical nature of our products. In addition, for SolarWinds, there's a bright spot hiding inside of the budget pressures we see in the market. Our business was built to disrupt and commoditize the market, which we choose to enter through a combination of products that are easy to try, implement and use and pricing that most of our competitors are unable to match. We will leverage these foundational aspects of our model to increase our market share in the IT management market during this period of economic disruption.

We had several operational highlights in the second quarter that I want to briefly mention. First, as you should remember, on April 21, we launched subscription pricing options for each of the key products in our Orion family of network, systems and database management products. Given the difficult economic environment, we expected the subscription pricing launch will be favorably received and in fact, it was. We have built a meaningful amount of subscription pipeline post-launch and closed over 60 subscription transactions for sales of product in our Orion product portfolio in the second quarter, which exceeded our estimates. As a result, we have raised our expectations of the dollar amount in volume of Orion product portfolio subscription bookings for the remainder of the year.

Second, we saw a solid ARR growth in the second quarter, with total ARR reaching approximately $873 million as of June 30, 2020, reflecting year-over-year growth of 10% on a reported basis and 11% on a constant currency basis. Subscription grade ARR grew at a meaningfully faster rate of 17% on a reported basis, reaching $394 million at the end of the quarter and on a constant currency basis increased by 18%. Third, we have continued to see strong growth in the number of our large customer relationship, illustrated by the number of customers who spent over $100,000 with us on a trailing 12-month basis increasing on a year-over-year basis by 23% to 958 customers. We see an evolving opportunity for us to strengthen our market leadership in the management, on-premise and hybrid IT infrastructure and application, which represents the great majority of IT infrastructure and applications deployed today.

Driven by budget pressures and a lack of strong options, we believe that we will see a wave of IT management vendor consolidation over the next several years, and SolarWinds is well-positioned to benefit from this wave. In fact, we're seeing this opportunity already. In the second quarter, we closed the largest commercial transaction in our history with a global financial institution. This purchase significantly expanded their footprint of SolarWinds products across their global hybrid IT infrastructure and application environment and was driven by the value we have consistently delivered compared to the other large IT management vendors whose products they have been using.

Fourth, as we have indicated previously, we believe that database performance management is a large growth opportunity for us. In that we have created the deepest on-premise, native cloud and hybrid database performance management capabilities in the market. Our database management products address the key relational and SQL databases in the market as well as the leading NoSQL databases used by many native cloud applications. Ultimately, we believe that in order to effectively manage the performance of on-premise, cloud and hybrid applications, the technology pros must increase their visibility into database performance. In the second quarter, we saw our total database performance management revenue grow by over 30%, driven by this need for visibility across on-premise, native cloud and hybrid database environments.

And finally, we were able to drive strong customer retention rates across our product portfolio during the second quarter, with maintenance renewal rates of over 92% for the 12-month period ended June 30, 2020. We believe that our maintenance renewal rates will strengthen slightly as we move through the second half of 2020 based on the trends we're currently seeing. And on the subscription side of our business, we're also seeing strong net retention rates despite the impact of the global pandemic with net retention rate of 105% for the 12 months ended June 30, 2020.

With that, I'll turn the call over to Bart, who will provide some additional details on our second quarter performance as well as our outlook for the third quarter and the full year.

J. Barton Kalsu
Executive VP, CFO & Treasurer

Thanks, Kevin, and thanks again to everyone joining us on today's call. Before I begin my remarks on the second quarter results, I want to update everyone on a few areas we talked about on our first quarter earnings call, specifically related to the impact on our business of the economic slowdown caused by COVID-19. The 2 areas I thought I should touch on are liquidity and cash collection.

At the end of the second quarter, we had $331 million of cash on hand. This is an increase of $94 million since March 31 and $158 million since December 31, 2019. We converted 95% of our adjusted EBITDA to unlevered free cash flow during the second quarter, which is an increase in conversion rate of 13 percentage points compared to the first quarter. This sequential increase in conversion rate was due to strong cash collections in the second quarter, lower-than-expected tax payments and capital expenditures and lower bonus payments. On the cash collection front, we had a very strong quarter of collections, and our bad debt allowance returned to normal levels despite the difficult economic environment. In fact, our DSOs at June 30 declined to 38.5 days from 45 days at March 31, 2020. Due to our strong cash flows in the second quarter, our net leverage dropped to 3.4x trailing 12-month adjusted EBITDA at the end of the second quarter from 3.9x at year-end.

Moving to a discussion of some of the details of our second quarter results. During the second quarter, 86% of our total revenue was recurring and recognized as either maintenance or subscription revenue. Total non-GAAP recurring revenue for the second quarter grew at 11%, reaching $213 million. Second quarter recurring revenue growth was led by non-GAAP subscription revenue of $96 million, which grew 20% year-over-year and was $98 million on a constant currency basis for the second quarter, reflecting year-over-year growth of 21%. The sequential decline in subscription revenue growth rate from the first quarter was primarily driven by the fact that we acquired Samanage on April 30, 2019.

As Kevin indicated, our total subscription net retention rate on a trailing 12-month basis for the second quarter held up at 105%, consistent with the prior year quarter. The net retention rate on our MSP products was 107% on a trailing 12-month reported basis and 108% on a constant currency basis, which was also consistent with the first quarter. However, we did see some pressure on our customer expansion sales and an increase in soft churn during the second quarter as devices under management by our MSP customers fell slightly as MSPs responded to the economic pressures being felt by their customers and focused on temporarily managing only the most business-critical devices. We have seen stronger expansion activity by our MSP partners so far in the third quarter as device counts grew in July as MSPs increased the number of devices they were managing for the customers back to more normal levels, resulting in sequentially stronger customer expansion sales and an improvement in soft churn trends.

Total non-GAAP license and maintenance revenue in the second quarter grew modestly year-over-year, reaching $150.2 million on a reported basis for the second quarter. This growth was led by non-GAAP maintenance revenue, which increased by 5%, reaching $116.5 million on a reported basis and grew by 6% on a constant currency basis. Non-GAAP license revenue in the second quarter totaled $33.7 million, reflecting a year-over-year decrease of approximately 14%. Our license sales performance for the second quarter was within the range of our expectation despite subscription sales of our on-premise-based products exceeding our expectations for the quarter, which reduced the amount of license revenue recognized in the quarter by a little over 1%. As Kevin indicated in his comments, the rhythm of the business was uneven in the second quarter, and this unevenness was most acutely felt in the sales of our network and systems management products.

Bookings declined year-over-year in the low single digits in April, but were down more significantly in the month of May driven by weak demand in March and then rebounded to down low single digits in June, which resulted in results for the first quarter that I just shared. We believe that license sales performance should improve from our second quarter results in the second half of the year based on the improvement in trends we have seen in our business in June and July. However we do continue to expect some year-over-year decline. Part of this decline will result from the fact that Orion product portfolio subscription sales are expected to be a headwind to license revenue growth of 5% for the last 6 months of the year relative to selling only perpetual licenses based on our outlook. However, the subscription pricing for Orion portfolio of product is favorable over the long term, as we currently expect the lifetime value of an Orion product portfolio subscription to be approximately 50% higher than its perpetual license and maintenance equivalent given our historically strong renewal rates for the Orion product portfolio.

To be clear, we are not forcing any transition to subscription sales, but rather offer it as an option to accommodate customer payment preferences. We have had a strong quarter of non-GAAP profitability and unlevered free cash flow in the second quarter of 2020. Second quarter adjusted EBITDA was $119.1 million, representing an adjusted EBITDA margin of 48% and year-over-year growth of 7%, a sequential increase of over 3 percentage -- 3 full percentage points of EBITDA margin from the first quarter was driven by disciplined expense management across our global business, given the uncertainty of the economic environment. And as previously mentioned, we generated approximately $113 million in unlevered free cash flow in the second quarter at a conversion rate of 95%, which puts our unlevered free cash flow for the 6 months ended June 30, 2020, at $204 million and a year-to-date conversion rate of 89%. Earnings per share on a non-GAAP basis for the second quarter totaled $0.25 per share based on 314.9 million fully diluted shares outstanding.

Turning to our outlook for the third quarter and full year 2020. Our outlook assumes a euro to U.S. dollar exchange rate of $1.15 and a British pound to U.S. dollar exchange rate of $1.27. The net impact of foreign currency fluctuation is projected to continue to be a slight headwind to growth. For the third

quarter of 2020, on a non-GAAP basis, we expect total revenue to be in the range of $254 million to $259 million, representing year-over-year growth of 5% to 7% on a reported basis and 4% to 6% on a constant currency basis. This third quarter outlook assumes a maintenance renewal rate in the 92% to 93% range and a third quarter net retention rate of 104% on a trailing 12-month basis. Our adjusted EBITDA outlook for the third quarter is a range of $119 million to $122 million, which results in a range of earnings per share of approximately $0.24 per share for the third quarter, assuming a weighted average number of shares outstanding of approximately 316.3 million. Our earnings per share guidance assumes a non-GAAP effective tax rate for the third quarter of 2020 of approximately 22%.

Now turning to our outlook for the full year of 2020. For the full year ended December 31, 2020, on a non-GAAP basis, we expect total revenue to be in the range of $1.008 billion to $1.018 billion, representing year-over-year growth of 7% to 8% on a reported and constant currency basis. The full year revenue outlook assumes a maintenance renewal rate in the 92% to 93% range and subscription net retention in the range of 104% to 105%. Our adjusted EBITDA outlook for the full year is a range of $470 million to $476 million, which results in earnings per share of $0.94 per share for the full year, assuming 315.5 million shares outstanding on a weighted average basis. Our earnings per share guidance assumes a non-GAAP effective tax rate for the full year of 2020 will be approximately 21%.

With that, I'll now turn the call back over to Kevin.

Kevin B. Thompson
President, CEO & Director

Thanks, Bart. To quickly recap the key points we have shared about our business on this call. First, we believe we are well-positioned to take market share over the next several quarters in both core IT management and MSP markets, leveraging our disruptive go-to-market approach as CIOs and MSP business owners look to reduce IT spend, while increasing the level of performance and availability of the infrastructure and applications for which they are responsible. Second, we've been positively surprised with the level of resilience in IT spending by small and medium-sized businesses and in the MSP market. Third, based on the results of multiple independent surveys, which were released in the second quarter, SolarWinds is recognized by CIOs as an important observability vendor due to the pervasiveness of the deployment of our technologies in managing the performance of critically structured applications deployed on purpose.

Fourth, we see a large opportunity for SolarWinds in database performance management, driven by digital transformation and the move to hybrid and native cloud infrastructures as well as the recognition of the need to have greater visibility into the performance of applications upon which the business relies. In order to effectively manage the performance of applications, visibility into database performance is required. We are focused on leveraging our strong database management capabilities to rise the observability wave. And finally, our products are critical to our customers' ability to ensure that the IT infrastructure and application that run today's businesses are performing at the levels that are required, which has resulted in stable maintenance renewal rate and subscription net retention rates during this difficult economic period.

Now I want to move to a more strategic conversation as it relates to the future of SolarWinds. As a management team and Board of Directors, over the last several months we have been considering the optimal structure for the future success, growth and value creation of the business that we have spent the last 20 years building. We believe that we have created 2 strong businesses inside of SolarWinds, our core IT management business and our MSP business, that are each at different points on their growth curve and in the maturity of the markets which they serve. We entered the Managed Service Provider market in 2013. And over the last 7 years, we have built a large and rapidly growing SaaS business, which we believe will approach $300 million in subscription revenue in 2020 based on the outlook for the year that Bart just provided. Over the period we have been in the MSP market, we have become one of the leading global providers of technology to MSPs, which has resulted in our MSP business having grown at a CAGR of approximately 17% on a constant currency basis into January of 2018.

Importantly, this business has also been designed to run at a differentiated level of profitability for a SaaS business. This begins with products that have been architected to run at high non-GAAP gross margins

and a multi-tier growth model that is highly efficient. We believe that we have created the broadest technology portfolio among all competitors in this large and rapidly growing market, which according to various reports by independent analysts is projected to grow at a CAGR of up to 12% over the next 3 years. However, we believe that the current growth rate of the MSP market is even higher than these estimates, as this market is still in its early stages of maturity, with many MSPs still using internally-developed solutions to manage some parts of their customers' IT infrastructures.

There are several future growth drivers of the MSP market that should result in a continued expansion of the total addressable market, which includes: expansion in the number of technology-based services that MSPs provide to their end customers; an increasing number of small and medium-sized businesses turning to MSPs to help them manage their IT infrastructure and application environment, driven by the complexity of digital transformation; a need for a broader and deeper level of security protection for MSP's customers' businesses; and an increase in the number of devices that need to be managed for small businesses.

The foundation of SolarWinds has been our core IT management business, upon which the company was founded over 20 years ago. We have grown our core IT management business while running it at a very high level of profit every year for the last 20 years. We're projecting this business will generate over $700 million in revenue in 2020 based on the outlook which Bart provided, representing growth in the mid-single digits for the year. Since January 2018, our core IT management business has grown at a CAGR of 10% and has consistently run at a level of non-GAAP profitability, which is meaningfully higher than our company average.

Through our disruptive technology and go-to-market approach, we have reached and maintained for the last 3 years the #1 position in market share in network management for IDC and are currently the #3 spot in the systems and application management market for Gartner. Based on the opportunities that we see for future growth, profitability and return, our Board of Directors has authorized management to explore a potential spin-off of our MSP business into a newly-created and separately-traded public company, and SolarWinds will be exclusively focused on our core IT management business. We believe the strategic rationale for the separation is compelling as the separation of the MSP business from SolarWinds will create 2 independent companies that are both market leaders, each focused on their separate businesses, customers and strategic initiatives.

The management and company focus generated by potential separation could give our MSP business the opportunity to become a faster growth company, to be more agile and drive faster and more targeted innovation, all for the benefit of our MSP partners, our employees and our shareholders. The potential separation could also give our core IT management business the opportunity to focus on disrupting the mature parts of the IT management markets where we compete, focus on building products and meet the needs of the IT and technology pros, which it has served for the last 20 years and optimize its high profit margin operating model. In a potential separation, we would expect each business to have a distinct capital structure appropriate for each of these businesses' maturity, growth and profit levels.

The potential spin-off may also enable shareholders to more clearly evaluate each company's assets, operations and future potential, while allowing both companies to independently pursue their distinct business strategies and capital allocation policies. Please note that we're in the early stages of the exploration of the potential spin-off, with so many details of the potential spin-off in work in process. We will not be able to provide any details on the potential separation beyond what we discussed on this call. We are, however, committed to updating you in the future.

I will now provide some specific thoughts we have as it relates to the opportunities we see for our MSP business and our core IT management business. With respect to our MSP business, we believe that additional focus on and investment in our MSP business may be able to accelerate its revenue growth while still providing a differentiated level of profitability. As a part of SolarWinds, the level of investment in our MSP business has been constrained, given our overall focus on driving a defined level of profitability on a consolidated basis and the requirement to allocate resources across a large global company. We believe that as a stand-alone company, we can increase the level of investment in growth initiatives, which include increasing the rate in which we're bringing new technology-based services to market to meet the needs

of our MSP partners and their end customers, expanding our global sales force, and creating new product pricing and packaging options.

We believe these initiatives could drive future revenue growth above 20% over time. In addition, as a focused stand-alone company, we feel we'll be able to more effectively attract and retain world-class talent in the MSP business. We also believe there is an opportunity for our MSP business to acquire companies and technologies that will be accretive to its growth strategy that we may have not considered with the MSP business being part of the much larger consolidated business that is SolarWinds. The current expectation is that the MSP business will be a growth-focused business. However, its operating model has been designed to allow for a meaningful and differentiated level of profit and cash flow generation compared to other similar scale SaaS business. We believe that the appropriate capital structure for this business may include a modest level of leverage, in line with software and technology peers of similar scale, with a focus primarily on reinvesting profits to drive long-term growth. We are early in our planning, but based on the long-term growth opportunities and the operating leverage we have built in our MSP business, we estimate that this business could run at a level approaching the Rule of 50 as a stand-alone company.

Our core IT management business is a highly-recurring revenue business designed to deliver a unique level of profitability and cash flow, focused on solving the performance management challenges of corporate IT and DevOps as well as the IT organizations of many government bodies around the world. This business has been architected to allow us in our well-established markets, disrupt them through our unique technology development and go-to-market approach that we've been working to perfect over the last 20 years. Based on the successes we have already had, we believe there's an opportunity to further disrupt the IT management market through a dedicated focus on displacing our competitors inside of our existing enterprise customer accounts. In order to successfully attack this opportunity, the core IT management business may benefit from being able to explore new go-to-market approaches to identify and win these displacement opportunities.

In addition, as we have stated previously, we believe that IT infrastructure and application will be predominantly architected and deployed in a hybrid model in the future. We feel we have the right set of product capabilities to address hybrid IT, with the ability to provide visibility or observability as it is referred to today due to the performance of all key components of IT infrastructure and applications, including those on-premise, in the public cloud and in hybrid environments. However, we also see an opportunity to combine this broad set of capabilities into a SaaS platform in unique and differentiated ways as compared to other observability vendors in the market, which will allow our current and potential customers choose how they want to manage their hybrid IT environment.

Last, the tremendous operating leverage we have built into our core IT management business allows us to generate a high level of profit and cash flow, which we believe we can further optimize while still delivering low to mid-single digits future revenue growth. If we proceed with the potential spin-off transaction, we believe that SolarWinds could have a highly differentiated level of profitability at scale within enterprise software, while delivering future revenue growth in the low to mid-single-digits which will potentially allow this business to run well above the Rule of 50, while presenting an attractive levered free cash flow growth story.

This optimization may provide us the opportunity to create incremental shareholder value for our core IT management business by incorporating an investor capital return program, whereby this business could pay a special dividend, concurrent with the potential transaction and distribute a substantial portion of its future profit to shareholders in the form of an annual dividend as a component of our future value creation strategy. Further, we would expect the SolarWinds core IT management business to continue to support a meaningful amount of leverage, likely increasing above current levels, given its strong cash flow generation. This leverage we used is for the future growth of the business and the potential capital return program. We plan to share additional details on the potential capital return strategy at a later date when we're further in our exploration process.

The last item I will address relates to how we're thinking about future leadership if we move forward with the potential spin-off. As it relates to our MSP business, we have a talented management team led by

the EVP and President of SolarWinds' MSP, John Pagliuca, which has tremendous experience in the MSP market. It is our current view, should the potential transaction go forward, John will continue to run the MSP business as its CEO. Charlie John has been a valuable member of the SolarWinds' executive team for the last 4 years in his role as leader of SolarWinds MSP delivering strong growth in both revenue and profitability and is a long-term veteran of the MSP market. John joined SolarWinds as a result of our acquisition of LOGICnow in May 2016, a high-growth business we acquired to accelerate our penetration in the MSP market. Prior to joining SolarWinds, John was the Chief Financial Officer for LOGICnow.

In the SolarWinds' core IT management business, part of our exploratory process will be to finalize the future leadership structure for SolarWinds. I've just finished my 14th year at SolarWinds. The second quarter 2020 represents my 56th quarter at the company and my 42nd quarter as CEO. When I got to SolarWinds, the company had approximately 20 employees who were based out of a small building in Tulsa, Oklahoma. Today, we have over 3,200 employees in 40 locations in 19 countries. And the 2020 outlook that Bart provided indicates we may reach the $1 billion in annual revenue threshold in 2020, which, as all of you know, is still rare for a pure software company.

I believe the time is now approaching for me to allow the deep and talented group of executives, who run our core IT management business, many of whom have been with me for most of my tenure at SolarWinds and have been outstanding partners with me in building SolarWinds into the great company it is today, to carry the leadership of SolarWinds into the future. This team, which includes our CFO, Bart Kalsu, who is obviously with me on this call; and David Gardiner, the EVP, President and CRO of our core IT management business is ready and more than capable. They have been the primary reason we have been able to create such a uniquely successful business together over the last 14 years.

I will continue to lead SolarWinds over the near-term as we make the decision on the spin-off, as we conduct an external and internal search process for a CEO, who will lead SolarWinds in the future. As you all know, I've been very passionate about the opportunity we have to build a great company, committed to this company and its people and investors and other stakeholders for a long time. And you can be confident that I will do whatever is in my power to ensure that we have a seamless leadership transition.

To the wonderful group of [Solarians], who I know are listening to this call today, while I'm not quite done with my time at SolarWinds yet, I do want to take this opportunity to tell all of you I'm honored that you've let me lead you for the last 14 years. The trust that you placed in me the level of passion and commitment you have consistently exhibited to making SolarWinds a great company, and the way you care about the people and the communities where you're located is truly humbling. Thank you for the experience. I would not trade it for anything else in the world. What we have accomplished, I will always be extremely proud of, as together we have created the best story in software. The best day for SolarWinds are still in front of us, stay passionate, stay aggressive and be unafraid to take risk.
With that, we'll open up the call for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Brad Zelnick with Crédit Suisse.

Brad Alan Zelnick
Crédit Suisse AG, Research Division

Great. Kevin, the news you've shared with us today is both surprising and very exciting at the same time. And it's good to see that the management team and the Board are really focused on shareholder value creation. As we think about the potential spin-off of the MSP business, I imagine you've reached a threshold in this process by which you're legally required to disclose this to everybody. Can you just outline for us what are the key decision points that are left here? And what remains of the process at this point?

Kevin B. Thompson
President, CEO & Director

So Brad, we're still actually relatively early in the exploration process. The reality is there's a lot of work for us to do both operationally to understand how we would split these 2 businesses apart. Luckily, we run in a business unit format today and the MSP business is one business unit. Core IT management business is the second business unit, but we're early. There's a lot of work to do to determine exactly what the market opportunity looks like to ensure that we will create the right level of value. But really, the whole genesis of this is we believe we can grow the MSP business faster than we're growing it today. We believe we can optimize the performance of the core IT management business. Ultimately, that should create a greater level of shareholder value, but it's really about taking these really 2 great businesses we've created and giving them a little bit of freedom, really taking any constraints that are on them off.

The reason we've disclosed it today is because there is a lot of work to do and because we have got need to involve a larger number of the members of my team. A very small number of people have been involved in this so far. We've disclosed it because that information will begin to leak out into the market the moment we expanded that circle beyond a very small group of people that report directly to me. So our management team is very excited about this opportunity. We really have been the drivers of the decision to explore this potential transaction. And we put a spent of time convincing our Board it was the right thing to do. And so we're disclosing it, so we can work as fast as we can and not have to try to keep it a secret, which, as you know, is always hard to do.

Brad Alan Zelnick
Crédit Suisse AG, Research Division

I get it. That makes perfect sense. And as you describe it, you're going from a Rule of 50 company to two Rule of 50 companies. I know that doesn't add up to the Rule of 100, but…

Kevin B. Thompson
President, CEO & Director

It really should. How many people can do that? That's one. I got 2.

Brad Alan Zelnick
Crédit Suisse AG, Research Division

But Kevin, can you just remind us in terms of dissynergies, the extent to which you have shared R&D, shared products, shared marketing, even down to G&A functions? And I know it's early in the process, but how should we -- if you could even put some numbers to that how we might think about it?

Kevin B. Thompson
President, CEO & Director

Yes. So I can't really put numbers to it, but in broad strokes, from an operating go-to-market R&D perspective, we have built a business where those costs are specifically aligned and charged to, if you -- to use a word, to the different business units. Where we have shared functions or finance, legal, IT, DevOps, a little bit on the corporate marketing search side, where we've got a lot of expertise we've brought into a shared function. So on the MSP side of the business, we'll definitely have to move some of those team members and those shared services into that business. Some of those team members will end up in the core IT management business. David's business is run at a high level of contribution more today. That will drop a little bit as they move into a different business, but also we really want to invest in growth. We think that business can grow, as I said, at a rate above 20% over the longer term. And with investment, we're pretty confident we can get it there.

So we definitely will invest on the MSP side by optimizing the core IT management business and really allowing that business to do what it does incredibly well, which is commoditize and disrupt mature markets, don't go into markets too early, wait until those markets are really well understood, wait until they're big, wait until everyone knows why they want to spend money, and then we will kind of move in and disrupt, which is how we've built that business. But we've been a little earlier to market over the last several years, and I think this will give us the ability to be a little more patient and do what we do incredibly well, in fact, what we think we do better than anyone else in technology.

Operator

Your next question comes from the line of Sanjit Singh with Morgan Stanley.

Melissa Louise Dunn
Morgan Stanley, Research Division

This is Melissa Dunn on for Sanjit. So hoping to get a little more color as it relates to the subscription revenue piece of the business. Within that, the cloud management piece, how big is that today? And hoping to get a little more on how it's been trending over the last year? And if you've seen any signs of how that piece is ramping?

Kevin B. Thompson
President, CEO & Director

Yes. So we haven't simply talked about the size of the cloud management business. I think we shared a couple of numbers on the call today, which is our MSP business we believe will approach $300 million in subscription revenue in 2020. The rest of the subscription revenue we have is part of our core IT management business. And inside of that core IT management business, we have cloud management, we have ITSM, we have database performance management that we sell the subscription. And we're beginning to sell our core Orion product portfolio as a subscription. So all of that is what comprises the rest of the subscription revenue that the company has. From a cloud management perspective, when you take that -- those ITSM product, the database performance management product that are delivered via service, when you take the application management, infrastructure management, log management products we have, those products are growing nicely, an important part of our go-forward story.

Some of those products kind of fit into that category that I mentioned while I was answering Brad's question, which is we're a little early in some of those markets, and I've said that many times publicly. I think if we move forward with this potential spin-off transaction, it will allow us to be more effective, which -- with how we attack those markets and we allow them to mature, while we take advantage of the big opportunity we see in enterprise software, where we're beginning to win a number of large deals, displacing some of the older competitors in IT management that still have large deployment in on-premise and hybrid environments. We believe we are absolutely the best vendor for IT pros and see how it was to consolidate around on-premise. So that's where our focus will be.

Operator

Your next question comes from the line of Kirk Materne with Evercore ISI.

Stewart Kirk Materne

Evercore ISI Institutional Equities, Research Division

Kevin, I know you're not going anywhere, but congrats on a great run. I think I remember when you first headed down there from Raleigh. So congrats on -- it's been a long time. So again, congrats. I know you're not going anywhere, but thought I'd say that. When you talk about sort of optimizing the IT business and sort of going after clients that -- trying to displace competitors, are there things that you think you can do better as a standalone business? Meaning, are there things you could do from a discounting perspective? You mentioned sort of having some new go-to-market functions around that, which -- knowing you're sort of religion towards your go-to-market model, I was kind of curious if you could explain a little bit more on that. So just kind of curious, can you do more on discounting? Is there a way to get into those sort of installed base accounts a little bit more effectively than how you're doing it today? Just maybe a little bit more detail on that would be helpful.

Kevin B. Thompson
President, CEO & Director

Sure. So it comes down to kind of -- from the first perspective, it comes down to level of focus that we're going to be able to put, assuming that this particular transaction moves forward, core IT management business will really be able to focus on just that, right. When you run a large global business, you have multiple business units you're running. You're constantly making decisions on priority, and this will make those decisions very, very clear. The core IT management business will have a #1 priority to grow that business, and it's not a matter of sharing resources across a larger business. So that's really the #1 advantage we would get. From a go-to-market perspective, we are seeing and we're having success. We mentioned we closed the largest commercial deal in our history with a large global financial institution in the second quarter. And as an example of what we can do, we have a very broad technology set. We have more and better technology we believe than really anybody in the market to manage on-premise environment and hybrid environments today. There's a lot of companies out there that are customers of ours but they also are customers of some of our competitors, and we're beginning to see a lot success in taking those customers away from our competitors because our competitors really can't respond.

Their technology is not as modern. It's not as broad. It's not as deep, and the pricing is much higher than ours. So what we believe we can do is with a dedicated focus on that opportunity create a SolarWinds style approach because we don't sell like anyone else, and we never will, but create a SolarWinds style approach for how you go in and you displace those competitors. And the good thing is it's not a wish. We're doing it already. We're doing it now without specific focus on that opportunity. We have won enough deals like that over the last couple of years that we can see the size of the opportunity we know we can win until it's figured out how do you market to identify those displacement opportunities? One of the conversations we train our sales reps to have to be able to move those displacement opportunities forward.

How do we get CIOs and maybe the IT to understand the breadth and the depth of the capabilities that we have because that's not been a focus of our messaging in the past. This will allow us to just focus on that, and really focus is what it all comes down to. When you can focus on doing one thing, you can do it incredibly well. When you split that focus, you may do some things well, some well, some okay, but I think that's what this potential transaction allows us to do. It also allows us, like I said, to be patient, where I think we've been a little less patient in some of the newer markets where we're competing. I'm not saying those technologies -- we'll get rid of them. We won't. But we will be a little more patient about allowing those markets to come to us versus us trying to go aggressively in those markets, and we'll get our growth in the mature markets where we have very, very strong position today.

Stewart Kirk Materne
Evercore ISI Institutional Equities, Research Division

Okay. And if I could, just one sort of follow-up question, actually. It's a little bit more around today's environment. Last quarter, you mentioned the pipeline was good, and you guys had a solid quarter given everything that was going on. How do you just feel that visibility as you head into the back half of the year? It sounds like things got better in June and July. Just any kind of qualitative thoughts on the environment, especially around just sort of purchasing ability from some of the IT pros?

Kevin B. Thompson
President, CEO & Director

Yes. What we said back on the first quarter call is what we were waiting to see is some level of stability. We didn't need to see better. We just needed to see stable and stable could be at a bad level. That's okay because that allows us to have visibility. So I think what we saw is a lot of volatility, March, April, May, starting to see some improvement, some level of stabilization, albeit at a lower level than we were in January of this year, obviously, that has given us visibility to what we believe the back half of the year looks like. Trends have improved. They're still not really that close to where they were Q4 of last year, early Q1 of this year, but we are beginning to see improvement in activity levels. I mentioned that one of the real challenges we saw in kind of April, May, June, is that technology pros just didn't even know what their approval process was because that was changing on them based on how their companies happen to feel on one day or another. Additional levels of approval got stuck in the process they didn't fully understand.

The good thing now is they understand that. So when we engage in a conversation, the buyer on the other side knows what their approval loop is going to be. They kind of know what kind of -- what time frame it's going to take, which is what has improved our level of visibility. So I think it's improving, it's better than it was in March and April, for sure. I think that we will see very, very, very small amounts of improvement in Q3 over where we kind of are right now. Kind of June, July has been better than March and May. I don't expect a tremendous level of improvement over the rest of this quarter. And unless something happens so that we get a broader part of the global economy open in the fourth quarter, I think the fourth quarter and the third quarter, while they're going to be better than Q2, are going to be a long way from where we all want them to be. But we continue to be confident in our ability to drive growth and obviously drive a very high level of profitability. We had an outstanding profit quarter in Q2.

Operator

Your next question comes from the line of Sterling Auty with JPMorgan.

Sterling Auty
JPMorgan Chase & Co, Research Division

I'm bouncing between calls, so I apologize if I ask something that you've already gone over. But with the potential of the MSP spin-out is there going to be distinct products that go with that spin-out? Or is there any chance that you could end up with some sort of cross licensing or some technology that still supports both businesses?

Kevin B. Thompson
President, CEO & Director

So certainly, most of the products are dedicated to one business or the other. So the core IT management products are really just used and sold into our corporate IT and government buyers. On the MSP side, they've got a product platform that is sold -- they've been designed very specifically for the MSP market because it needs to be -- MSPs need to use technology in a very specific way. They need to be able to meter to use a word, how much in service of providing one customer versus another customer, so they can build based on level of usage. So the product platforms are meaningfully different. The capabilities are very similar. And we do have a couple of products that are relatively small amounts of revenue that we kind of repackage, reposition and sell it inside. So we have a little bit of that, but not very much.

Sterling Auty
JPMorgan Chase & Co, Research Division

Okay. And then one follow-up. I think you talked about a little bit of pressure on the net expansion from customers. And we just heard that from Datadog as well saying that maybe there was a little bit of slowing in cloud growth through this environment. Is that what you were experiencing in terms of just -- some of just the expansion being put on pause? And has that started to return in July and beginning of August?

Kevin B. Thompson
President, CEO & Director

Yes. So really, I'll talk about that in kind of the 2 sides of the business. So on the MSP side of the business, what we saw in kind of May and June is that our MSPs reduce the number of devices. So I think number of network elements, I think number of endpoints. They reduced the number of those devices endpoints that they were managing for their end customers. They continue to manage their customers' environments. They didn't lose the customers, but they reduced the number of devices and endpoints. They were managing really to the ones that were absolutely critical to the business being able to stay open. Why? Because those small businesses, many of them maybe closed and didn't have any revenue in April and May and say, "Hey, take my bill down for a little bit, just keep me -- keep my heart beating. And when I get back open, then we'll need to manage everything again." And then what we've seen in July and so far into August is we're seeing those device counts start to grow again. So the MSPs are beginning or adding those devices back. They're now managing a bigger percentage of their customers' infrastructure.

Again, we think that will continue as we move through the back half of the year. On the core IT management side of the business, we definitely saw a much more stringent, if you will, approval process for spending, which then translated into longer processes, process that take a longer period of time before a transaction would get approved. We didn't saw lengthening of deal cycle time. We're selling a lot of really -- always a great conversation, closed a lot of transactions, closed a lot of big transactions in the second quarter. We saw the volume of the business drop in the second quarter. Some of that was at the small business level. I think we'll see some of that volume come back as we move through the rest of the year. I think we'll continue to see our ASPs be strong, but I don't think it's all going to come back this year. I think it's going to take into next year, at least based on what crystal ball I have and looking at kind of how the economy is performing and how businesses are performing and how many businesses are fully open versus partially open.

Howard Ma
Senior Director of Investor Relations

Operator, we have time for 2 more questions.

Operator

Your next question from the line of Erik Suppiger with JMP Securities.

Erik Loren Suppiger
JMP Securities LLC, Research Division

Yes. And Kevin, it's been great working with you. I know you've been -- you're sticking around, but congratulations. One, I don't think I heard about the timing for the spin-out. You have any rough time frame? And then the MSP business -- okay, go ahead with that.

Kevin B. Thompson
President, CEO & Director

Yes. On the spin-off, we're still a pretty good bit away from getting to the point we can make a final decision and before it's going to potentially happen. So the decision is to be made in the next 90 to 120 days. If we decided to move forward, it's going to be in the first half of next year before the spin-out could actually happen.

Erik Loren Suppiger
JMP Securities LLC, Research Division

Okay. And then the MSP business -- it's about $300 million out of, call it, $1 billion in revenue. Would the headcount be split in proportion to the revenues? Or how would we think of the cost structure between the 2 of them?

Kevin B. Thompson
President, CEO & Director

Yes. So the MSP business is very profitable for a SaaS business, but it's not as profitable as our core IT management business. I mentioned on the call, our core IT management business the last 20 years and definitely for the last several years is running at a level of profitability meaningfully above our corporate average. MSP business obviously runs at a little below the corporate average, just math. But it's very, very profitable. It's got a little more headcount than percentage of revenue because it's a complicated set of technologies that it builds. Also, MSPs require a little more personal touch to use the word from a kind of support customer success perspective. So that's where the business is a little bigger as a percentage of headcount than the global business. Last question.

Operator

Your last question comes from the line of Kash Rangan with Bank of America.

Unknown Analyst

This is actually Jacqueline on for Kash. First, can you talk a bit more in detail about the MSP business spin-off? Like what are the constraints that you have now? And what are some of the new initiatives that can be put into place post-spin-off?

Kevin B. Thompson
President, CEO & Director

Yes. So from a constraint perspective, it really comes down to the level of investment that we were allocating to the MSP business. We set a global profit target at a consolidated level. In order to get to that global profit target, there's a level of profitability that are demanded from that business unit. And as a separate business really focused on being a growth company, they'll be able to invest more and let that profit target drop. They also will not have to be part of a conversation that says, "Hey, I want to do this." Another part of the business wants to do something else. It requires the same set of resources. Who gets those resources based on critical need, based on priority, based on size of opportunity, they'll be able to make those prioritization decisions on their own, which means they'll be able to get more done in a shorter window of time.

In terms of some of the initiatives, one of the things we believe is there's a great number of technology-based services we can deliver to MSPs that we're not delivering to them today. And in order to deliver more services, we need to build them or we need to acquire them. So on the development side, we believe we're getting through a combination of OEM and building brand-new products and investing more in that. We think we can bring more technology to market on an annual basis, which will allow us to increase the revenue stream we're getting from our MSP partners. We don't really have to add a new partner. We just get that new partner to buy that new service, so that's one.

The other thing I mentioned is that when it comes to M&A, there -- we think there are a number of technology acquisition opportunities, small business acquisition opportunities that the MSP business could take advantage of. But because those are relatively small in terms of revenue, they would not get to the priority level as a consolidated SolarWinds level that it might make sense to do those because any acquisition, whether it's $5 million of revenue or whether it's $50 million of revenue requires a lot of effort. And size really only adds about 15% or 20% to the integration effort. And so when you're almost $1 billion revenue company, you don't spend time buying $3 million and $5 million and even maybe $10 million revenue stream.

But for a business that's doing $300 million in revenue, if that technology is strategic you absolutely can and should do that. So that's another constraint we've had on them. The other is that because we are a consolidated business, because we do think about the market in interesting ways and we try to make sure there's synergy both between our products, but more importantly, to make sure our pricing makes sense across our global product portfolio. There are pricing and packaging options that business is not taking -- been able to take advantage of that it may be able to take advantage of as a separate stand-alone business. So those are a few. There are more but I think those are the ones that are probably the easiest to understand.

So with that, operator, we will have to wrap up the call. And we do appreciate everyone attending and for the questions. And we'll talk to you next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

Kevin B. Thompson
President, CEO & Director
Thank you.